

## Latest Issue

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## ABSTRACTS

### **The Cost of Unserved Energy: Evidence from Selected Industrial Cities of Pakistan**

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This study is an attempt to explore the cost of unserved energy due to power outages in Pakistan that started in 2007. The study is based on a survey conducted for four major industrial cities of Punjab—Gujrat, Faisalabad, Gujranwala, and Sialkot. In addition to quantification of output losses, the effect on employment, cost of production, and delay in supply orders are also examined. The output loss is quantified using two-dimensional analyses, controlling for variations in the duration of outages and in the shift hours. The survey data reveal that employment has not suffered any significant drop due to alternative energy arrangements. These arrangements, nevertheless, have increased the production cost of the firms. Delays in the delivery of supply orders are also due to energy shortage. The study reports that the total industrial output loss varies between 12 percent and 37 percent, with Punjab as the major affected province. In the two dimensional analysis resulting in nine scenarios for each province, the ranges of losses in billion Rs are 132-400, 109-331, 17-54 and 11-34 for Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan respectively. The overall industrial sector loss in volume ranges between 269-819 billion rupees. In the overall analysis, food and beverages, textile, and chemical product industries are respectively the top three industries on the scale of losses. However, in terms of percentages, the pottery and ceramic industry is the industry that suffered the most.

*JEL classification:* Q4, L60

*Keywords:* Energy Crises, Output Loss, Manufacturing, Pakistan

# **Price Setting Behaviour of Pakistani Firms: Evidence from Four Industrial Cities of Punjab**

WASIM SHAHID MALIK, AHSAN UL HAQ SATTI, and GHULAM SAGHIR

Macroeconomic research has mostly been focused on investigating micro foundations of the theory and transmission channels of policy ever since rational expectations have found place in the literature. It was in the 1990s that macroeconomists started working on models incorporating the assumption of nominal rigidity in the optimal behaviour of individuals and firms. These models have gained empirical support from both aggregate as well as firm-level data. The evidence for developing countries on the issue is limited and Pakistan is no exception. This study aims at investigating the price setting behaviour of Pakistani firms. Besides this, the potential effects of changes in financial cost on the overall pricing and production decisions have also been investigated.

Pakistani firms perceive themselves to be operating in a competitive environment though most of their clientele is regular. The majority of the firms use current information while reviewing prices. Around 70 percent of the firms use either a state-dependent pricing rule or a combination of both time and state-dependent rules. Pakistani firms revise and change their prices usually in the months of June and July. The main determinants of change in the price level are the cost of raw material, energy and inflation. The competitors' price generally figures in price decrease. Among the causes of price stickiness, implicit contract with the customers is at the top; the fixed term contract comes next. Most of the firms change their wage structure annually. About half of the firms index their workers' wages to inflation and for the purpose refer to the earlier inflation rate. On the whole labour productivity and changes in inflation rate are observed as the main determinants of wage change.

*JEL classification:* E39, E52, L11

*Keywords:* Price Setting Behaviour, Time and State Dependent Pricing Policy

## **Biases in Consumer Price Index Methodology in Pakistan: Suggestions for Improvements**

ZAHID ASGHAR and MAHMOOD KHALID

The issues relating to the complexity of the measurement of the Consumer Price Index (CPI) which is regarded as the best and most well known indicator of inflationary trends and without referring to which economic policies cannot be evaluated have long been debated. Any measurement error in CPI may over or understate inflation, which can have serious repercussions on monetary, fiscal and other economic management policies. The report of the Boskin Commission [Boskin, *et al.* (1996)] has identified the possible sources of bias in the CPI. These biases which this study has also corroborated through a primary survey of selected households relate to commodity and outlet substitution, quality adjustment and new product introduction as well as index calculation in the

existing methodologies. In this paper these biases have been evaluated for Pakistan and ways to improve the construction of the Index have been suggested. Other issues in Pakistan relate to selecting a representative product (or good), defining average quality, data collection, weights determination and base year change. The use of the Geometric means index formula and Laspeyre's Index to reduce the formula bias has been proposed in this study.

*JEL classification:* C43, E31, E52

*Keywords:* Consumer Price Index, Biases in CPI, CPI Formulae

## **Impact of Financial Liberalisation and Deregulation on Banking Sector in Pakistan**

KALBE ABBAS and MANZOOR HUSSAIN MALIK

The paper analyses the market perception about the performance of Pakistani commercial banks in the wake of financial liberalisation and deregulation measures taken by the central bank over the last two decades. For this purpose, it uses the Survey approach. Out of 35 commercial banks, 15 banks have been chosen for analysis purposes.

The paper mainly finds that key banking reforms have helped in removing the flaws in the banking sector of Pakistan. In particular, privatisation of banks, the deregulation and institutional strengthening measures, switching towards market-based monetary and credit management systems were instrumental in streamlining banking operations. Similarly, the removal of restrictions on entry of private banks and operational restrictions on foreign banks also significantly contributed to the provision of quality banking services. The resultant competitive environment is the key factor behind improved efficiency of banks in Pakistan. The banks devised a number of strategies to respond to the competitive market conditions in the country. However, they faced various constraints in this regard, especially lack of managerial skills, and in hiring IT professionals, etc. As a part of future strategy, banks are likely to form more strategic alliances with foreign banks and undertake the expansion of business through widening of branch network. Despite a number of successful stories on different fronts, the central bank could not succeed in narrowing down the banking spread which is one of the key measures of banking performance. High domestic inflation, large non-performing loans (NPLs) of banks, high administrative expenses, larger intermediation costs, and poor debt recovery are identified as important factors behind widening of banking spread.

*JEL classification:* E58, G2, L32

*Keywords:* Bank Reform, Central Banks and their Policies; Financial Institutions and Services; Public-Private Enterprises, Pakistan